

ORIGINAL



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MEMORANDUM

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TO: Docket Control

FROM: Ernest G. Johnson
Director
Utilities Division

Date: March 9, 2006

RE: STAFF REPORT FOR ARIZONA WATER COMPANY – APPLICATION FOR
EXTENSION OF ITS EXISTING CERTIFICATE OF CONVENIENCE AND
NECESSITY FOR ITS SUPERSTITION SYSTEM (DOCKET NO. W-01445A-05-
0701)

Attached is the Staff Report for Arizona Water Company's application for extension of its existing Certificate of Convenience and Necessity to provide water service. Staff is recommending approval with conditions.

EGJ:BNC:tdp

Originator: Blessing Chukwu

Arizona Corporation Commission
DOCKETED

MAR 09 2006

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CKM

AZ CORP COMMISSION
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Service List for: Arizona Water Company
Docket No. W-01445A-05-0701

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STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION

ARIZONA WATER COMPANY

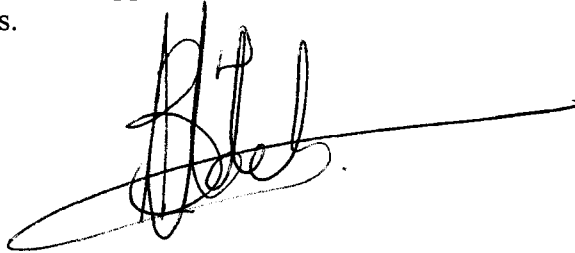
W-01445A-05-0701

APPLICATION FOR EXTENSION OF ITS EXISTING CERTIFICATE OF CONVENIENCE
AND NECESSITY FOR ITS SUPERSTITION SYSTEM

MARCH 2006

STAFF ACKNOWLEDGMENT

The Staff Report for Arizona Water Company (Docket No. W-01445A-05-0701) was the responsibility of the Staff members signed below. Blessing Chukwu was responsible for the review and analysis of the Company's application. Marlin Scott, Jr. was responsible for the engineering and technical analysis.

A handwritten signature in black ink, appearing to be 'B. Chukwu', with a long horizontal line extending to the right.

Blessing Chukwu
Executive Consultant III

A handwritten signature in black ink, appearing to be 'Marlin Scott, Jr.', with a long horizontal line extending to the right.

Marlin Scott, Jr.
Utilities Engineer

EXECUTIVE SUMMARY
ARIZONA WATER COMPANY
APPLICATION FOR EXTENSION OF ITS EXISTING CERTIFICATE OF
CONVENIENCE AND NECESSITY TO PROVIDE WATER SERVICE
DOCKET NO. W-01445A-05-0701

On October 4, 2005, Arizona Water Company ("AWC" or "Company") filed an application with the Arizona Corporation Commission ("ACC" or "Commission") for an extension of its Certificate of Convenience and Necessity ("CC&N") to provide water service in portions of Pinal County, Arizona. On January 9, 2006, Staff filed a Sufficiency Letter indicating that the application had met the sufficiency requirements of Arizona Administrative Code.

AWC is an Arizona Corporation, in good standing with the Corporations Division, and engaged in providing water utility service to customers in various portions of Cochise, Coconino, Gila, Maricopa, Navajo, Pima, Pinal and Yavapai Counties in Arizona. According to the Company's Annual Report for the year ending December 31, 2004, the Company provides water utility service to approximately 72,800 customers in Arizona.

By this application, AWC is seeking Commission authority to add one square-mile to the Company's existing 140 square-miles of certificated area. AWC serves the Apache Junction and the Town of Superior service areas through its Superstition System.

Based on Staff's review and analysis of the application, Staff believes that the existing system will have adequate production and storage capacity to serve the existing and proposed CC&N extension areas within a conventional five year planning period and can reasonably be expected to develop additional production and storage as required in the future.

Staff recommends the Commission approve AWC's application for extension of its existing Certificate of Convenience and Necessity to provide water service in Pinal County subject to compliance with the following conditions:

1. To require AWC to charge its authorized rates and charges in the extension area.
2. To require AWC to file with Docket Control, as a compliance item in this docket, a Notice of Filing indicating AWC has submitted for Staff's review and approval, a copy of the fully executed main extension agreements for water facilities for the extension area within two years of a decision in this case.
3. To require AWC to file with Docket Control, as a compliance item in this docket, a copy of the Arizona Department of Environmental Quality's ATC for facilities needed to serve the requested areas within two years of the effective date of an order in this proceeding.

4. To require AWC to file with Docket Control, as a compliance item in this docket, a copy of the developer's Certificate of Assured Water Supply, where applicable or when required by statute, within two years of the effective date of the final decision and order issued pursuant to this application.

Staff further recommends that the Commission's Decision granting the requested CC&N extension be considered null and void, after due process, should the Company fail to meet Conditions No. 2, 3, and 4 listed above within the time specified.

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Introduction

On October 4, 2005, Arizona Water Company ("AWC" or "Company") filed an application with the Arizona Corporation Commission ("ACC" or "Commission") for an extension of its Certificate of Convenience and Necessity ("CC&N") to provide water service in portions of Pinal County, Arizona.

On November 3, 2005, the ACC Utilities Division ("Staff") filed an Insufficiency Letter, indicating that the Company's application did not meet the sufficiency requirements of Arizona Administrative Code ("A.A.C."). A copy of the Insufficiency Letter was sent to the Company via U.S. mail. In the Letter, Staff listed the deficiencies that needed to be cured for administrative purposes.

On December 12, 2005, the Company provided additional documentation to support the relief requested.

On January 9, 2006, Staff filed a Sufficiency Letter indicating that the application had met the sufficiency requirements of A.A.C. R14-2-402.

Background

AWC is an Arizona Corporation, in good standing with the Corporations Division, and engaged in providing water utility service to customers in various portions of Cochise, Coconino, Gila, Maricopa, Navajo, Pima, Pinal and Yavapai Counties in Arizona. The Company is a wholly-owned subsidiary of Utility Investment Company, which is a wholly-owned subsidiary of United Resources, Inc. According to the Company's Annual Report for the year ending December 31, 2004, the Company provides water utility service to approximately 72,800 customers in Arizona. AWC provides water service to customers in 18 water systems in three groups: Northern, Eastern and Western.

By this application, AWC is seeking Commission authority to add one square-mile to the Company's existing 140 square-miles of certificated area. The Company serves the City of Apache Junction, City of Mesa, Town of Superior, and the surrounding areas in Maricopa and Pinal Counties.

Finance of Utility Facilities

The Company is proposing to finance the required utility facilities through advances in aid of construction. Advances in aid of construction are often in the form of Main Extension Agreements ("MXAs"). MXAs are standard industry practice. The minimal acceptable criteria for line extension agreements between water utilities and private parties are established by A.A.C. R14-2-406. These agreements generally require the developer to design, construct and install (or cause to be), all facilities to provide adequate service to the development. The developer is required to pay all costs of constructing the required facilities necessary to serve the

development. Upon acceptance of the facilities by the Utility Company, the developer conveys the utility facilities through a warranty deed to the Utility Company. Utility Companies will often refund ten (10) percent of the annual water revenue associated with development for a period of ten (10) years.

Staff recommends that AWC file with Docket Control, as a compliance item, a Notice of Filing indicating AWC has submitted for Staff's review and approval, a copy of the fully executed main extension agreements for water facilities for the extension area within two years of a decision in this case.

The Water System

AWC's Superstition System serves the Apache Junction and the Town of Superior service areas and is comprised of the Apache Junction Water System and the Superior Water System. According to the Water Use Data Sheet (for the Superstition System) submitted by the Company, the Company has nine wells/CAP water sources producing 10,855 gallons per minute ("GPM"), 21.08 million gallons of storage capacity, and a distribution system serving 20,354 service connections as of October 2005. Based on historical growth rates, it is anticipated that the existing service area could grow to approximately 23,800 connections at the end of five years. The Company has predicted an additional 50 connections for the proposed CC&N extensions at the end of five years, resulting in a projected total customer base of approximately 23,850 at the end of five years. Based on the existing well production and storage capacities, the system can serve approximately 24,700 service connections. Therefore, Staff concludes that the existing system will have adequate production and storage capacity to serve the existing and proposed CC&N extension areas within a conventional five year planning period and can reasonably be expected to develop additional production and storage as required in the future.

The Company is proposing to extend its water system into the requested areas by extension of its distribution system. The installation of on-site and off-site water facilities to serve the proposed Superstition Views Subdivision will consist of:

- | | |
|-------------------------------------------------------------------|-------------|
| 1. Off-site plant facilities: | |
| a. Install 21,120 lineal feet of 12-inch DIP and related fittings | \$1,267,200 |
| b. Pressure regulating station | \$ 30,000 |
| 2. On-site distribution system (350 lots) at \$3,000 per lot | \$1,050,000 |
| 3. Overhead | \$ 140,832 |
| | ===== |
| 4. TOTAL: | \$2,488,032 |

Staff also concludes that the proposed plant facilities for the proposed Superstition Views Subdivision and its cost estimate totaling \$2,488,032 seem reasonable. However, no "used and useful" determination of the proposed plant facilities was made and no particular treatment should be inferred for rate making or rate base purposes.

The Arizona Department of Environmental Quality's Certificate of Approval to Construct ("ATC") for facilities needed to serve the requested area has not been submitted by the Company. As such, Staff recommends that the Company file with Docket Control, as a compliance item in this docket, a copy of the Arizona Department of Environmental Quality's ATC for facilities needed to serve the requested areas within two years of the effective date of an order in this proceeding.

Arizona Department of Environmental Quality ("ADEQ") Compliance

ADEQ regulates the Company's Apache Junction System under ADEQ Public Water System ("PWS") #11-004 and the Superior System under PWS #11-021. Based on compliance information submitted by the Company, these systems have no deficiencies and ADEQ has determined that these systems are currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, and Chapter 4.

Arizona Department of Water Resources ("ADWR") Compliance

The Company is located within the Phoenix and Pinal Active Management Areas ("AMAs"), as designated by ADWR. As a result, the Company is subject to the reporting and conservation rules of ADWR. ADWR has indicated that the Company is in compliance with the Phoenix and Pinal AMAs' requirements.

Staff recommends that the Company be required to file with Docket Control, as a compliance item in this docket, a copy of the developer's Certificate of Assured Water Supply, where applicable or when required by statute, within two years of the effective date of the final decision and order issued pursuant to this application.

ACC Compliance

According to the Utilities Division Compliance Section, AWC has no outstanding ACC compliance issues.

Arsenic

The U.S. Environmental Protection Agency ("EPA") has reduced the arsenic maximum contaminant level ("MCL") in drinking water from 50 micrograms per liter (" $\mu\text{g/l}$ ") or parts per billion ("ppb") to 10 $\mu\text{g/l}$. The date for compliance with the new MCL is January 23, 2006.

The Company indicated its arsenic levels for its wells range from 6 ppb to 26 ppb. Based on these levels, the Company is in the process of developing a treatment plan to comply with the new arsenic standard. In Decision No. 66849, issued on March 19, 2004, the Commission approved the implementation of an Arsenic Cost Recovery Mechanism which would allow the Company to recover arsenic treatment costs for its Eastern Group. The Superstition System is part of this Eastern Group.

Curtailment Plan Tariff

A Curtailment Plan Tariff ("CPT") is an effective tool to allow a water company to manage its resources during periods of shortages due to pump breakdowns, droughts, or other unforeseeable events.

AWC has an approved curtailment tariff for "All Service Areas" that was approved by Decision No. 66235 effective July 23, 2004.

Proposed Rates

AWC has proposed to provide water utility service to the extension area under its authorized rates and charges.

Franchise

Every applicant for a CC&N and/or CC&N extension is required to submit to the Commission evidence showing that the applicant has received the required consent, franchise or permit from the proper authority, pursuant to ARS 40-282.B. If the applicant operates in an unincorporated area, the company has to obtain the franchise from the County. If the applicant operates in an incorporated area of the County, the applicant has to obtain the franchise from the City/Town.

The extension area is within an unincorporated area of Pinal County. AWC has filed in the docket a copy of the franchise agreement it had entered into with Pinal County.

Recommendations

Staff recommends the Commission approve AWC's application for extension of its existing Certificate of Convenience and Necessity to provide water service in Pinal County subject to compliance with the following conditions:

1. To require AWC to charge its authorized rates and charges in the extension area.
2. To require AWC to file with Docket Control, as a compliance item, a Notice of Filing indicating AWC has submitted for Staff's review and approval, a copy of the fully executed main extension agreements for water facilities for the extension area within two years of a decision in this case.
3. To require AWC to file with Docket Control, as a compliance item in this docket, a copy of the Arizona Department of Environmental Quality's ATC for facilities needed to serve the requested areas within two years of the effective date of an order in this proceeding.

4. To require AWC to file with Docket Control, as a compliance item in this docket, a copy of the developer's Certificate of Assured Water Supply, where applicable or when required by statute, within two years of the effective date of the final decision and order issued pursuant to this application.

Staff further recommends that the Commission's Decision granting the requested CC&N extension be considered null and void, after due process, should the Company fail to meet Conditions No. 2, 3, and 4 listed above within the time specified.

MEMORANDUM

DATE: February 7, 2006

TO: Blessing Chukwu
Executive Consultant III

FROM: Marlin Scott, Jr. *MSJ*
Utilities Engineer

RE: Arizona Water Company – Superstition System
Docket No. W-01445A-05-0701 (CC&N Extension)

Introduction

Arizona Water Company ("Company") has applied to extend its Certificate of Convenience and Necessity ("CC&N") for its Superstition System. The Superstition System is comprised of the Apache Junction and Superior service areas. The requested area will add one square-mile to the Company's existing 140 square-miles of the comprised local certificated area. The Company serves the City of Apache Junction, City of Mesa, Town of Superior and the surrounding areas in Maricopa and Pinal Counties.

Capacity

Existing Utility Plant

According to water use data submitted by the Company, the Company has nine wells/CAP water sources producing 10,855 gallons per minute ("GPM"), 21.08 million gallons of storage capacity, and distribution systems serving 20,354 service connections as of October 2005. Based on historical growth rates, it is anticipated that the existing service area could grow to approximately 23,800 connections at the end of five years. The Company has predicted an additional 50 connections for the proposed CC&N extension at the end of five years, resulting in a projected total customer base of approximately 23,850 at the end of five years. Based on the existing source production and storage capacities, the system can serve approximately 24,700 service connections.

Proposed Plant Facilities

The Company is proposing to extend its water system into the requested area by extension of its distribution system using advances in aid of construction. The

installation of on-site and off-site water facilities to serve the proposed Superstition Views Subdivision will consist of:

1. Off-site plant facilities:	
a. Install 21,120 lineal feet of 12-inch DIP and related fittings	\$1,267,200
b. Pressure regulating station	\$30,000
2. On-site distribution system (350 lots) at \$3,000 per lot	\$1,050,000
3. Overhead	\$140,832
	=====
4. TOTAL:	\$2,488,032

Conclusions

Staff concludes that the existing system will have adequate source production and storage capacity to serve the existing and proposed CC&N extension area within a conventional five year planning period and can reasonably be expected to develop additional production and storage as required in the future.

Staff also concludes that the proposed plant facilities for the proposed Superstition Views Subdivision and its cost estimate totaling \$2,488,032 seem reasonable. However, no "used and useful" determination of the proposed plant facilities was made and no particular treatment should be inferred for rate making or rate base purposes.

Arizona Department of Environmental Quality ("ADEQ") Compliance

Compliance Status

ADEQ regulates the Company's Apache Junction System under ADEQ Public Water System ("PWS") #11-004 and the Superior System under PWS #11-021. Based on compliance information submitted by the Company, these systems have no deficiencies and ADEQ has determined that these systems are currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, and Chapter 4.

Certificate of Approval to Construct

The ADEQ Certificate of Approval to Construct ("ATC") for facilities needed to serve the requested area has not been submitted by the Company. Staff recommends that the Company docket as a compliance item in this case within two years of the effective date of an order in this proceeding a copy of the ATC issued by ADEQ.

Arsenic

The U.S. Environmental Protection Agency has reduced the arsenic maximum contaminant level ("MCL") in drinking water from 50 parts per billion ("ppb") to 10 ppb. The date for compliance with the new MCL is January 23, 2006.

The Company indicated its arsenic levels for its sources range from 6 ppb to 26 ppb. Based on these levels, the Company is in the process of constructing treatment facilities to comply with the new arsenic standard. In Decision No. 66849 (dated March 19, 2004), the Commission approved the implementation of an Arsenic Cost Recovery Mechanism which would allow the Company to recover arsenic treatment costs for its Eastern Group. The Superstition System is part of this Eastern Group.

Arizona Department of Water Resources Compliance

Compliance Status

The Company is located within the Phoenix and Pinal Active Management Areas ("AMAs") and is in compliance with their reporting and conservation requirements.

Certificate of Assured Water Supply

Staff recommends that the Company docket as a compliance item in this case within two years of the effective date of an order in this proceeding a copy the developer's Certificate of Assured Water Supply for the requested area, where applicable or when required by statute.

Arizona Corporation Commission Compliance

A check with the Utilities Division Compliance Section showed no outstanding compliance issues for the Company.

Curtailment Tariff

The Company has an approved curtailment tariff for "All Service Areas" that became effective on July 23, 2004 per Decision No. 66235.

Summary

Conclusions

- A. Staff concludes that the existing system will have adequate source production and storage capacity to serve the existing and proposed CC&N extension area within a conventional five year planning period and can reasonably be expected to develop additional production and storage as required in the future.

- B. Staff concludes that the proposed plant facilities for the proposed Superstition Views Subdivision and its cost estimate totaling \$2,488,032 seem reasonable. However, no "used and useful" determination of the proposed plant facilities was made and no particular treatment should be inferred for rate making or rate base purposes.
- C. ADEQ regulates the Company's Apache Junction System under ADEQ PWS #11-004 and the Superior System under PWS #11-021. Based on compliance information submitted by the Company, these systems have no deficiencies and ADEQ has determined that these systems are currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, and Chapter 4.
- D. The Company indicated its arsenic levels for its sources range from 6 ppb to 26 ppb. Based on these levels, the Company is in the process of constructing treatment facilities to comply with the new arsenic standard.
- E. The Company is within the Phoenix and Pinal AMAs and is in compliance with their reporting and conservation requirements.
- F. A check with the Utilities Division Compliance Section showed no outstanding compliance issues for the Company.
- G. The Company has an approved curtailment tariff for all its systems.

Recommendations

- 1. Staff recommends that the Company docket as a compliance item in this case within two years of the effective date of an order in this proceeding a copy of the ATC issued by ADEQ.
- 2. Staff recommends that the Company docket as a compliance item in this case within two years of the effective date of an order in this proceeding a copy the developer's Certificate of Assured Water Supply for the requested area, where applicable or when required by statute.

MEMORANDUM

TO: Blessing Chukwu
Executive Consultant III
Utilities Division

FROM: Barb Wells *bw*
Information Technology Specialist
Utilities Division

THRU: Del Smith *DS*
Engineering Supervisor
Utilities Division

DATE: October 20, 2005

RE: **ARIZONA WATER COMPANY (DOCKET NO. W-01445A-05-0701)**

The area requested by Arizona Water for an extension has been plotted with no complications using the legal description provided with the application (a copy of which is attached).

Also attached are copies of the maps for your files.

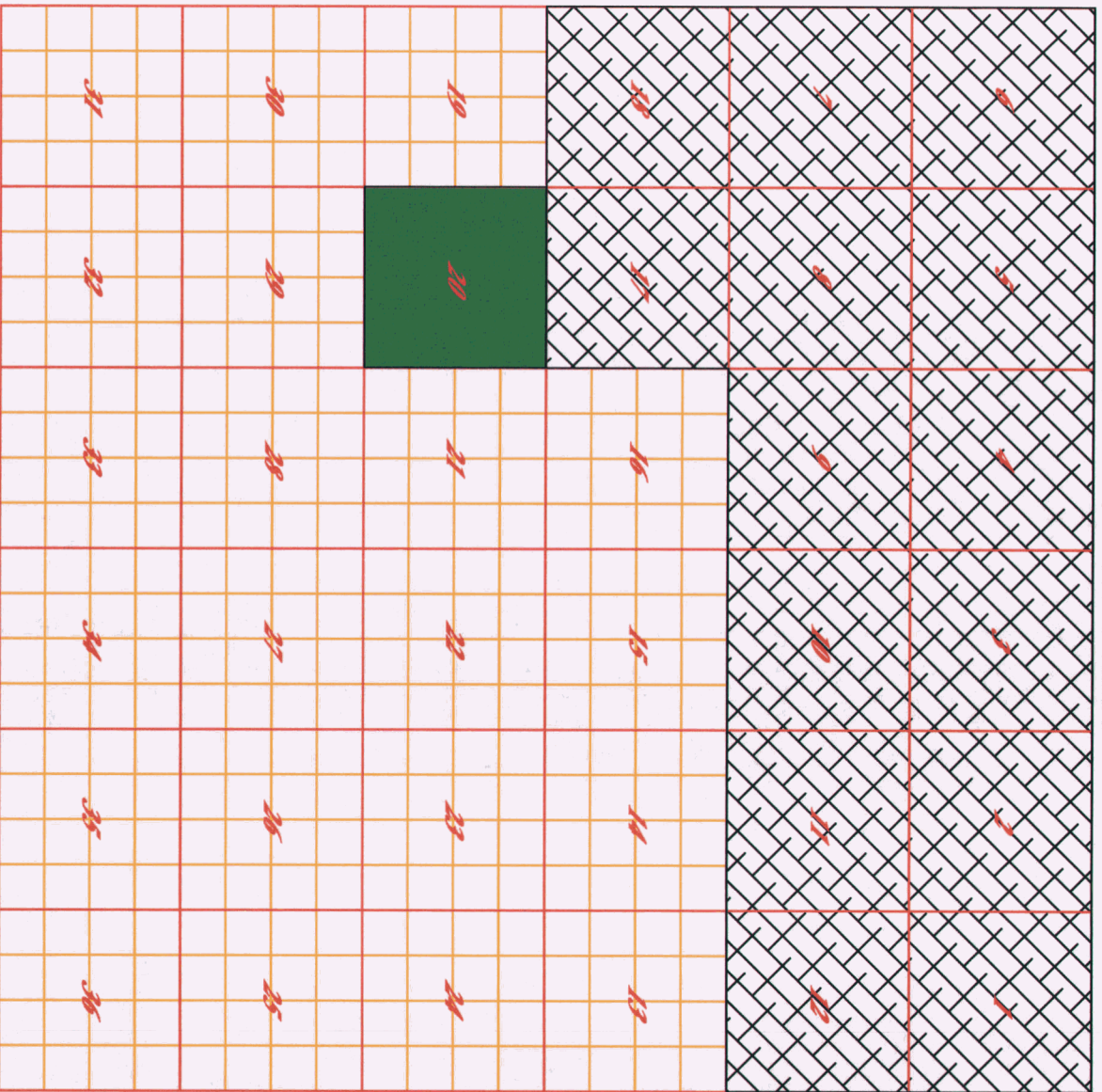
:bsw

Attachments

cc: Docket Control
Mr. Robert Geake
Ms. Deb Person (Hand Carried)
File

COUNTY: Pinal

RANGE 11 East



TOWNSHIP 2 South



W-1445 (34)(4)

Arizona Water Company (Superior)



Arizona Water Company
Docket No. W-01445A-05-0701
Application for Extension

Exhibit 1

CC&N This Application

All of Section 20, Township 2 South, Range 11 East of the Gila and Salt River Base and Meridian, Pinal County, Arizona.